

U.S. AGRICULTURAL POLICY¹

By Clayton Yeutter²

Mr. Chairman, it is a pleasure to testify before this Subcommittee on a subject that is dear to all of us – U.S. agricultural policy. As you know, we do this anticipating the development of farm legislation in 2007. It was my privilege to work with the Congress in developing a farm bill in 1990, which seems like just yesterday though nearly 20 years have since passed.

Objectives

What is it that we should seek to accomplish in 2007? Some will suggest that Congress simply extend the 2002 Farm Bill, legislation that is very popular with many farmers. Others will recommend major reforms, in an effort to update programs that have not changed substantially in more than 70 years. There is merit in the latter for American agriculture today bears little resemblance to the farm operations of the '30s – when I shocked oats, fed a threshing machine, and first began to ride a combine.

Where in this wide spectrum of possibilities should the Congress settle? It seems to me that the answer lies in first agreeing on the fundamental objectives of U.S. farm policy, for any generation. My own list follows:

First, I am persuaded that Congress should continue to provide a safety net in the 2007 legislation. Some will argue that is no longer necessary, that private sector risk management mechanisms can do the job, and that today's sophisticated farm operators can handle this task as well or better than the government can. These folks may in fact be correct, and the trend is certainly in that direction. But we have a good many farmers, particularly in the upper age ranges, who are still intimidated by futures and options markets, complex forward marketing techniques, etc. So I come down on the side of maintaining for now a government provided safety net, though I hope we can in the coming years shift this risk management function to the private sector.

How then should this safety net be designed? I believe we should seek to make it:

1. Equitable – between and among all farmers, not just a select number who have more political clout than the others. The orientation should be toward providing a safety net for farmers and their families – with the emphasis being on people, not on commodities.
2. Efficient – accomplishing the greatest possible risk mitigation at the least possible cost. We owe that to the American taxpayer, for tax resources

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are not unlimited. Achieving the “greatest bang for the buck” should involve minimizing not only policy costs, but administrative costs as well.

3. Transparent – for the citizens of America, who finance this safety net, deserve to know just what it is costing them. That includes farmers themselves, for they too are taxpayers. And if a particular program simply shifts the cost from taxpayers to consumers (as does our sugar program), our citizens deserve to know that too. After all, every taxpayer is also a consumer of food.
4. Comprehensible – to farmers, to Members of Congress, and to the general public. Through the years U.S. farm policy has become increasingly complex, which has made farmer decision-making more challenging and has significantly increased administrative costs. It has also led to duplicative risk management efforts as we’ve stacked crop insurance and disaster assistance on top of our existing commodity programs.
5. Compliant with World Trade Organization (WTO) rules – lest we be subjected to retaliation by countries adversely affected by our programs (the recent cotton case). No one can tell us what to include in the 2007 Farm Bill. As a sovereign nation, that is our decision, and our decision alone. But we must realize that if we expect other nations to follow the rules on international trade, we must do so as well. Otherwise our own agricultural exports will be in great jeopardy.
6. An Enhancement, not a Diminution, of our International Competitiveness – for a healthy, viable U.S. agricultural economy will be heavily dependent on agricultural exports for decades to come. Energy generation, and perhaps even the development of industrial and pharmaceutical uses for agricultural products, will reduce somewhat our reliance on exports. But those developments will by no means substitute for a growing export market, nor should they. Aside from the moral obligation and economic benefits inherent in helping to feed the world, we should not get ourselves in a position where we are heavily dependent on new sources of domestic demand that could be (though hopefully will not be) transitory.

We must also try to provide safety net benefits that are not immediately capitalized into land values, for that does diminish our international competitiveness. Short run benefits become a long run detriment to American agriculture, and those benefits often flow to absentee landowners rather than to farm families.

7. Responsive to the Particular Challenges/Opportunities of our Time –
- a. Energy Generation – an obvious candidate for inclusion in the 2007 Farm Bill, in a big way.
 - b. Environment Protection/Conservation – a subject that should merit nearly as much attention in next year's legislation as will energy generation.
 - c. Industrial Uses of Farm Products – a subject that has garnered farmer attention for years, but with little to show for it. Technological advances should brighten these opportunities in the relatively near future.
 - d. Infrastructure – hard and soft. There is a strong case to be made for infrastructure investments in rural America, so this is a subject that should be on next year's Farm Bill agenda. Our competitors (e.g., Brazil) are investing heavily in rural infrastructure whereas we've been depreciating ours. If we're not careful what has been a major advantage for U.S. agriculture in international commerce could become a disadvantage. (Whatever we do in this area would undoubtedly be encompassed in a rural development title in the 2007 legislation.)

Other objectives could be enumerated, some perhaps just as important as those I have selected. But these seven provide a good measuring stick for our present programs.

U.S. Agricultural Policy in 2006

I will not spend much time today critiquing our existing farm programs. By and large they have served American agriculture well through the years. They've certainly been invaluable through some of the tough times we've experienced over the past seven decades. And politically they'll not be easy to change. Like anyone else farmers often prefer a "bird in the hand to two in the bush." In addition, there are many within our entire food industry who have a vested interest in the status quo. Change is often traumatic, or at least perceived as likely to be traumatic. Hence, resistance develops, which is not surprising.

The key issue for policymakers, however, is whether we can do better. And the answer is, "We certainly can." Using my own measuring stick, I believe most of us would agree that:

1. Our present programs are not always equitable. Most of their benefits, in fact, flow to the producers of five commodities (rice, cotton, corn, soybeans and wheat), and there are many inequities between and among

the five. One can add the unique programs for dairy and sugar to that list, and contrast the benefits which flow to those seven groups with the nominal benefits received by the producers of specialty crops, beef, pork, and poultry. (Ironically the latter groups, which receive little "help" from the government often outperform the former in economic terms.)

2. U.S. farm policy is by no means simple, and it is often nebulous. That leads to innumerable questions of interpretation, significant administrative costs, and often duplication.
3. Our programs are relatively transparent (at least as compared to most of the rest of the world) – providing one is willing to read through thousands of pages of laws and regulations. But few people fully comprehend the intricacies of our major commodity programs, including many farmers who are recipients of their benefits.
4. Some of our present programs may be vulnerable to challenge under WTO rules, and they are likely to be challenged if the Doha Round collapses. We'll probably win some, lose some in WTO dispute settlement. But if we design our 2007 and beyond farm policies skillfully, we should win them all.
5. No matter how we design the 2007 farm bill, at least some of the benefits are likely to be capitalized into land values. But we ought to exercise some self-discipline in that regard. Though higher land values are appealing, they also have a downside – not just in adversely impacting our global competitiveness, but also in making it more difficult for young farmers to get established. One way of mitigating this impact is by spreading our safety net benefits more widely than we do today – among products and among farmers.
6. Finally, though we've given some attention to the environment, energy, rural development, and industrial uses of farm products in previous farm bills, they've never really been in the forefront of debate. That should change as our 2007 deliberations move forward.

The 2007 Farm Bill

How then should Congress approach this 2007 legislative challenge?

First of all, I believe it is in our own self interest to seek to "build a better mouse trap" in U.S. agricultural policy. I am not persuaded by the argument that we should "keep doin' what we're doin'" for doing otherwise would constitute unilateral disarmament in the WTO agricultural negotiations. If our policy objectives for 2007 are sound, and if we are not now fully meeting those objectives, that ought to motivate us all to try to do better.

There is little or no probability of concluding the Doha Round prior to enactment of our next Farm Bill. So why not enact legislation that will meet the domestic and global needs of American agriculture for years to come – irrespective of what is now happening, or not happening, in the Doha Round. In my view we can do that with programs that are considerably less trade distortive than they are today. If we can accomplish that, we'll eliminate our present WTO vulnerabilities. That in turn will enhance our negotiating leverage if and when the Doha Round comes to life, increasing the likelihood that we can open up new markets for U.S. agricultural exports.

Our overall objective should be to design a 2007 "package" of policy measures that we can legitimately defend, at the WTO or anywhere else. Hopefully that package would have fewer subsidies in the amber category than we have today, more of them (perhaps most of them) in the green category, and the remainder in blue. That should not be an impossible task. And if it does prove unduly daunting there is nothing that prevents us from attempting to alter, by negotiation, what qualifies as "blue" or "green." We are not without leverage in the Doha Round, or in any other agricultural negotiation!

With that preface, let's now be more specific with respect to how such a package might look.

Past History

In years past we've built our safety net around the various commodity programs, and only in recent decades have we begun to broaden our policy focus. That first started with the nutrition programs – food stamps, school lunches, school breakfasts, and the WIC program. Then we began to add environmental benefits to the picture, and ultimately energy provisions as well. And we've always given some attention to the research and development of industrial uses of farm products, along with a variety of rural development programs. From a policy standpoint, however, all of these have been peripheral to the commodity provisions. The latter have constituted the "driver" of farm legislation since the '30s, and these other programs have been along for the ride.

Perhaps those days have now run their course, and we ought to contemplate having not just one but at least three drivers for the 2007 Farm Bill. The discussion and debate of the next several months can sort out just which ones are the "primary" drivers, and which are "secondary."

An Energy Driver

One of those drivers should be energy generation (or renewable fuels, for those who prefer that term), and that could turn out to be the most powerful one of all. There'll need to be an array of subsidies in this farm bill title, but I'm persuaded that the American public will pay that price with enthusiasm. Americans are fed up with dependence on foreign oil, with much of it coming from countries that are unstable, unfriendly, or both. Americans also realize that millions of dollars in oil revenues, much of it coming from us, are financing terrorism throughout the world, much of it aimed at

us! Hence, it is not just American farmers, but all Americans, who will with vigor support programs designed to help pull us out of this morass. It won't happen overnight, and ethanol, ETBE, biodiesel, wind power, and other sources of renewable energy are by no means the total solution. But each of these will help, and the 2007 Farm Bill provides an opportunity to give all this a huge thrust. It ought to be a sky high priority of this Subcommittee and the Congress as a whole.

An Environmental Driver

A second driver, and one that could be just as strong – though not as high profile – is the environment. To your credit Congress has significantly expanded its commitment to environmental protection and conservation in rural America over the past two decades. What was almost an afterthought in the early years has now become an integral part of American agricultural policy. In 2007 we ought to do a lot more. As I alluded earlier, this is one way to broaden the impact of Federal financial resources in farm country.

There is not a farm in America that could not have, and should not have, a comprehensive plan for environmental management. It ought to be a “no brainer” in policy terms. Establishing this as a major objective of American farm policy will then make it possible to “raise the bar” in every individual plan over time and reward farmers for doing so. Were we to do that, future generations of American farmers will be the beneficiary, as will all Americans. In addition to that laudatory outcome these programs should qualify as “green box” under WTO rules, which will make it much easier to defend the use of amber or blue box subsidies in some of our other “drivers.”

The Basic Safety Net

The third major driver would then be our traditional commodity programs, or whatever Congress might put in their place as part of the overall safety net. (This would be quite a contrast to having these programs as essentially the sole driver.) Your Subcommittee might wish to develop your thinking on energy generation and the environment before moving on to the more traditional safety net programs – a wholly different modus operandi from what has been followed in the past. Were you to do so, you could evaluate the probable financial flows to rural America from investments in energy generation and environmental programs, and then determine what more is necessary to provide farmers with an adequate safety net for 2007 and beyond. Presumably for a good many farmers – those who take advantage of environmental/conservation and energy generation programs – that “third driver” will not need to be as generous (i.e., costly to the taxpayer) as in the past.

One change that could be made in existing commodity programs would be simply to shift the emphasis to payment programs that will qualify as blue or green box under WTO rules. That could be done in a myriad of ways. But it would still leave us with many of the policy shortcomings I mentioned earlier. Hence, I hope the Subcommittee will carefully examine some of the “Income Assurance” and “Farmer Savings Account”

proposals that have surfaced in recent years. It might well be feasible to transition to a program of this nature as the third driver of our safety net. This could be far simpler than the combination of programs we now use, much less costly to administer, and form-fitted to all farms rather than just those producing "covered" commodities.

Summary

In summary, I see the 2007 Farm Bill as having three main drivers – (1) energy generation, (2) environmental/conservation programs, and (3) modified traditional commodity programs or a re-designed whole farm income assurance program. Those drivers will be supplemented, of course, by traditional nutrition activities and hopefully by creative new ways to invest in the infrastructure of rural America, rural non-farm businesses, and in fostering the development of other high margin (industrial/pharmaceutical) uses of farm products. If we can put that kind of package together it should serve rural America well for years to come, and should make it possible for us to compete effectively in global commerce. My only caveat is that we need to build flexibility into each of these programs, particularly the three drivers, for the world changes rapidly these days, and agility needs to be one of the attributes of our farm policy structure.

I wish great success to the Subcommittee as it undertakes this formidable but rewarding task!

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Ambassador Clayton Yeutter practices in the international trade and food and agriculture areas. He came to the firm in 1993, after having served in cabinet and sub-cabinet posts under four U.S. Presidents.

Ambassador Yeutter served as U.S. Trade Representative (USTR) from 1985-88, and while there led the American team in negotiating the historic U.S.-Canada Free Trade Agreement, the precursor to the North American Free Trade Agreement. He also helped launch the most ambitious trade negotiation in history, the 100-nation Uruguay Round, which culminated in the creation of the World Trade Organization.

While USTR, Ambassador Yeutter broadened the U.S. trade agenda to encompass for the first time serious global negotiations in services, intellectual property, and agriculture.

In 1989 Ambassador Yeutter was named Secretary of Agriculture. In that post he steered the 1990 Farm Bill through Congress, laying the groundwork for a far more market-oriented policy structure in American agriculture. In 1991 he was elected Republican National Committee Chairman, and a year later President Bush persuaded him to return to the administration in a Cabinet-level post as counselor to the president.

From 1978-85 Ambassador Yeutter served as president and chief executive officer of the Chicago Mercantile Exchange. His tenure there was marked by innovation and growth which contributed to its evolution into one of the largest financial institutions in the world.

Earlier in his career, Ambassador Yeutter held two assistant secretary of agriculture posts under President Nixon and then served as deputy special trade representative under President Ford. He had previously been the director of one of the world's largest agriculture technical assistance programs in Colombia, South America, after having served as chief of staff to the governor of Nebraska.

He presently serves as a director of several major corporations, all of which are deeply involved in international commerce or international finance.

PRACTICES/INDUSTRIES

International Trade
Pro Bono

AREAS OF FOCUS

Trade policymaking - domestic and international
Trade proceedings - consultation, strategy, and tactics
Legislative strategies for trade and agricultural issues

EDUCATION

Ph.D. Agricultural Economics, University of Nebraska—Lincoln, 1966
J.D., *Order of the Coif, cum laude*, University of Nebraska—Lincoln College of Law, 1963 B.S., *with high distinction*, University of Nebraska—Lincoln, 1952

AWARDS/RANKINGS

Numerous national awards from groups involved in international trade and agricultural policy and many others, including eight honorary doctorate degrees.

BAR ADMISSIONS District of Columbia Nebraska

LANGUAGES Spanish

**Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form**

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2004.

Name: Clayton Yeutter

Address: 10955 Martingale Ct.

Telephone: Potomac, MD 20854

Organization you represent (if any): _____

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2004, as well as the source and the amount of each grant or contract. House Rules do **NOT** require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: _____ Amount: _____

Source: _____ Amount: _____

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2004, as well as the source and the amount of each grant or contract:

Source: _____ Amount: _____

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Please check here if this form is NOT applicable to you: x

Signature: Clay Yeutter

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